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Expanding Access for the Urban Poor Through Alternative Methods of Financing Private Ownership

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I. Introduction

In his first message on the State of the Union in 1964, President Lydon Johnson declared an "unconditional War on Poverty" in the United States. With his declaration, the president outlined several proposals to be used in the fight against poverty. In the following years, the U.S. Congress translated the President's proposals into a series of antipoverty policies and programs that comprised the agenda for the Great Society. The proposals sought to reduce poverty and inequalities by increasing the educational and economic opportunities available to the poor. The expectation was that the antipoverty programs would help the poor to more effectively seize the opportunities provided by the economy.[1]

Thirty years later, debate is increasingly focusing on the effectiveness of the Great Society programs. This debate has been triggered mainly by the realization that those programs have not achieved the goals that proponents had set forth and that these same programs at work, may have actually been responsible for increased poverty. Critics of current antipoverty programs contend that the programs have resulted in a disintegration of the American family, in reduced work effort, and in long-term dependency on public support by a sizeable segment of the low-income population.[2] These outcomes, it is argued, have had the effect of increasing, rather than decreasing poverty. Supporters of the Great Society programs on the other hand argue that, although the programs have had some undesirable effects, they have played an important role in reducing the insecurity that would have otherwise been experienced by the "deserving" poor such as children, disabled, and the elderly.[3]

While it is true that the antipoverty policies and programs initiated during the 1960s have had some positive effects in the fight against poverty in general, the programs appear to have had limited, if any, success in fighting poverty of inner-city residents. For example, over the past thirty years, there has been an increase in the concentration of poverty in the inner cities. Today, inner-city poor are isolated from the mainstream of society even more so than before the declaration of War on poverty and their employment prospects have continued to deteriorate. A notable feature has been an increase in the size of the *underclass*.[4]

A careful analysis of current government programs for the poor reveals that a continuation of those policies will not reverse the economic disintegration of inner cities. Although a significant proportion of the nation's resources is devoted to fighting poverty in the inner cities, the results of these efforts have mainly been temporary, reducing short-term economic distress but not providing avenues for long-term financial security and stability. Thus, although millions of dollars are allocated to providing basic needs for the poor in the form of cash and in-kind benefits, evidence shows that the long-term antipoverty effects of these programs for those in high poverty inner-cities have been minimal, and that the undesirable consequences of transfer programs are themselves not trivial. Likewise, resources devoted toward job creation and improving employability have not resulted in significant changes in the well-being of the majority of low-income households in the inner cites.

Convincing evidence now exists that increasing transfers to the poor, especially those in the inner cities, apart from being politically impossible, may also not produce positive net social benefits. Policy makers across the political spectrum now agree that expansion of the size redistributive system is likely to yield losses that exceed benefits.[5] This suggests that more innovative approaches to dealing with poverty, ones that do not lead to an increase in the redistributive system, are called for. Furthermore, such policies must seek to minimize the negative aspects of transfers as much as possible.

Increasingly, it is accepted that long-term self-sustaining economic development of depressed areas must involve the economic empowerment of the residents in those areas. Empowerment means that individuals can change their economic position through their own actions. Thus, individuals are able to control their destiny through their actions and choices. In addition, empowerment includes the ability of individuals to exert influence on choices made by the community. In short, empowerment means overcoming feelings of helplessness. Such empowerment must depend mainly on the residents use of market forces and less on government support programs. In particular, empowerment must be associated with increased work effort, saving, investment, and must involve more entrepreneurial activities. Policies that empower the poor must also reduce dependency, and encourage family stability by avoiding those policies that lead to marital dissolution or that hinder the formation of families. Also, empowerment policies should minimize drug use and criminal activity that increase the transaction costs of doing business and that undermine stability of community institutions.

The central theme of this paper is that the empowerment of the poor requires ownership of private property by members of those households. Policies that do not result in increases in the asset holdings of the poor will not lead to the empowerment of the poor and consequently will not be effective in fighting poverty. Thus, an effective antipoverty policy is one that not only improves the current well being of the poor in terms of consumption but also leads to the accumulation of assets. We contend that the failure of U.S. antipoverty policy to alleviate the poverty of inner-city residents is not surprising. To a large extent, current antipoverty policy provides resources to meet the basic consumption needs of families but not to increase the actual or potential asset holdings of low income households. As a matter of fact, current antipoverty policy severely penalizes asset accumulation by the poor, thereby inhibiting their empowerment.[6]

We propose a new approach to dealing with inner-city poverty that focuses on direct asset accumulation. The basic thrust of the proposal is that only those policies that reward asset accumulation can lead to long-term economic improvement of low-income households. We suggest that a clear and stable linkage exists between levels of asset holding in a community and that community's economic stability as well as the viability and stability of social and educational institutions in that community. For example, we expect ownership of assets by residents of inner cities to have direct salutary effects on family stability, work effort, and crime reduction. All these outcomes stimulate economic growth, reduce the transaction costs of doing business in high poverty areas, and facilitate the emergence of an entrepreneurial class.

It is now becoming conventional wisdom that ownership of assets and businesses is crucial to solving the problems of poverty in high poverty areas.[7] For example, a number of efforts aim to help low-income households own homes. Other approaches focus on ownership and management of micro-enterprises. To date, few evaluative studies examine the results of these programs in terms of their successes, failures, and cost-effectiveness, as well as their ability to produce long-term economic revitalization of poor communities. The limited information available about these programs, however, is not encouraging and it is doubtful if such program can raise the asset holding of the low-income population to the point where self-sustaining asset accumulation can occur. A number of reasons can be given for the limited success of these programs. First, the scope of many of these programs is narrow, with only a small portion of poor residents in a particular areas benefiting from those programs. Second, when the programs have met with some success, spill-over effects sufficient to stimulate the local economy by attracting additional investment and jobs have not been realized. Instead, the benefits accrue to the owners of single businesses or of individual housing units. In addition, evidence shows that small business have extremely high failure rates. Thus, unless owners have significant experience in operating such businesses, and unless the community has a strong economic base, such businesses do not offer much promise for revitalizing poor communities. Finally, many programs do not deal with the key issues facing the entrepreneur. In particular, some programs have sought to create entrepreneurs. We suggest that this approach places the cart before the horse; it is an impossible task and one that is not likely to succeed. Programs that seek to create entrepreneurs instead of creating the conditions necessary for the emergence of entrepreneurs must continuously rely on new infusions of capital from government and from donor agencies.

Section II outlines the interaction of asset holdings and the stability of economic and social institutions in a community. We emphasize the need for ownership of assets by local residents as a necessary condition for reversing the disintegration of the economies of inner cities. Section III considers the problems that hinder asset accumulation by the residents of inner cities. Section IV presents a new approach to financing asset accumulation by the poor and members of the low income population.

II. Asset Accumulation and Revitalization of Inner-Cities

The complexity of inner-city poverty in the United States is evidenced by diminishing economic opportunities available and by the collapse of educational and social institutions. As previously noted, the economic conditions in many inner cities offer limited employment opportunities to the local residents. One reason for this has been the out migration of blue color jobs from the inner-cities to the suburbs. This, coupled with the poor education afforded by inner cities, has resulted in high joblessness rates.[8] Even for those who secure employment, most of the jobs available are of the low-wage variety that do not provide sufficient earnings to raise families out of poverty. The shrinking labor market prospects have resulted in the emergence of an underground economy involving drugs and criminal activity, thereby displacing legitimate economic activities. In addition, inner cities are now marked by high levels of violence against persons and property. Likewise, the undesirable effects of welfare programs have had a more noticeable effect amongst inner-city poor. For example, female headship, reduced labor force participation, and welfare dependency are more pronounced amongst residents of inner cities.[9]

The combination of poor labor market prospects, drugs use, crime, violence, alcoholism, and marital instability translate into weak family and community ties. As a result, social institutions in the inner cities have become increasingly ineffective as agents for social change and cohesion. The collapse in employment opportunities and social institutions have spilled over to the educational institutions. With a declining tax base, educational institutions have continued to deteriorate. This is magnified by the lack of interest shown by parents on the educational performance of their children, again largely because of the number of dysfunctional families. The weak social and educational institutions reduce the ability of residents to seize those economic opportunities that may arise. Thus, weak inner-city institutions create conditions that translate to the observed pathologies. That is, a breakdown in social and educational institutions leads to further economic disintegration. Evidence also exists, however, that diminished economic opportunities lead to a weakening of social and family institutions. Some of the more clearly noticeable changes in inner cities that have resulted in the disruption of social and family institutions have followed economic deterioration. For example, increased joblessness of males has partly been responsible for an increase in female headship and an increase in welfare use by a large proportion of the inner-city poor.

One important factor in the disintegration of inner-city institutions has been the ownership stake that residents have in their community. When residents own property in their communities, they have an interest in assuring that their property appreciates in value. For such to occur, it is necessary that those factors that increase the cost of doing business are minimized. Thus, residents who own property have an interest in deterring crime and keeping drug dealers out of a community and also by undertaking other activities that increase the quality and attractiveness of the community for business. More business investment increases property values, creates employment opportunities, all of which lead to economic stability in the community. Likewise, when a large number of people own property, they have an interest in cooperating to protect property rights.

We suggest that the long-term revitalization of American cities hidges on a strategy that fosters direct asset accumulation by the poor. Unlike calls for the establishment of particular interest-earning accounts (see Haveman 1988 and Sherraden 1991), an effective policy must involve ownership of real assets that the low-income persons can relate to and that can contribute directly to their present well-being. Furthermore, an effective policy must start by helping the poor own assets that are in their community. Ownership of assets far away from where the poor live creates less attachment and does not lead to behavior that minimizes those negative externalities affecting property values. Finally, for the any such plan to be successful, a large number of low-income households in a given area must own some assets in that area. This is a necessary condition.

An asset accumulation strategy of this nature facilitates and stimulates increased work effort and increased savings; it also provides many residents with incentives to protect and respect private property rights. Such outcomes are essential for the emergence of a culture of ownership and for the development of entrepreneurship. Entrepreneurship evolves slowly; it also depends on institutions where a culture of ownership of assets exists and where individuals respect private property. For this culture to develop, individuals must have a mechanism for accumulating assets. As the members of the community increase their asset holdings, and thus become the residual claimants on the income of these assets, the community will adopt procedures to minimize the negative behavior of others that reduces the value of property. For example, the incentives to monitor and report those involved in crime and drug dealing activities strengthens the higher the proportion of assets in the community owned by residents of that community.[10] Likewise, as asset holding in the community increases, more people search for profit opportunities and undertake risk. Thus, entrepreneurs slowly emerge to exploit these profit opportunities.

Policies that increase asset holdings by members of low-income households also play a positive role in increasing family stability. Under prevailing economic conditions and the existing income transfer system, there is little positive payoff for the poor to remain in a two-parent household. Asset ownership and the emergence of entrepreneurial activities create conditions that offer positive payoffs to stable family units. Such payoff arise because cooperation within the family generates further increases in the economic well-being of all members of a family unit. As far as is practical, asset accumulation proposals should contain incentives for family stability.

III. Barriers to Asset Accumulation by the Poor

Proposals to increase asset holdings by inner-city poor households must address a number of factors that hinder asset accumulation. A primary barrier to asset accumulation is that, unlike other poor, inner-city poor have a limited history of asset ownership. Although financial constraints are important, the absence of a culture of ownership hinders the process further. Thus, most inner-city poor lack the interest or the effort needed to accumulate assets. As a matter of fact, many may think it impossible for them to hold assets.

Other factors that limits asset accumulation by the inner-city poor are their earnings potential and credit histories. Many have either low earnings or no earnings at all, and even those who hold jobs generally have erratic work histories. The accumulation of assets by the inner-city poor is further complicated since many have poor or no credit histories and most have low or no savings. This, together with the fact that they or their close relatives do not hold assets (collateral) makes them high credit risks. Thus, even with efficient capital markets, many poor do not qualify for credit. The possibility of default, or not paying back in full and in a timely manner, is so high that conventional lenders need to charge an extremely high risk premium. This effectively prohibits access to credit for the inner-city poor.

Another important barrier to asset accumulation by the inner-city poor in United States is that policies to promote small business development are likely to fail because most people in the target households lack sufficient experience to operate businesses. Unlike immigrants, such as Koreans and Cubans, who frequently have vast experience in operating their own businesses, most inner-city poor, especially blacks and Puerto Ricans, have little or no experience in operating businesses. Consequently, policies to promote minority business in the United States are not necessarily good approaches for increasing asset holding. That is, the promotion of microenterprises will not likely succeed in leading to wholesale asset accumulation.

Accumulation of assets by residents of inner cities has also been hindered by discrimination in credit markets. Conventional lenders have generally minimized their costs of screening individual borrowers by using group information to evaluate the credit risk of individual borrowers. This process frequently leads to statistical discrimination. If, for example, individuals from a particular area have been bad risks in the past, there is a tendenc for lenders to generalize and consider all investments and individuals in that area as bad risks. As a result, many inner-city communities have been redlined by conventional lenders. Redlining has had its most detrimental effects in poor minority neighborhoods.

Finally, asset accumulation by the poor is handicapped by the incentive structure of the U.S. welfare system. Means-tested programs that serve the poor penalize those who accumulate assets by making them ineligible for benefits or by reducing their benefits. As a result, current welfare policies are inconsistent with asset accumulation, actually working against such accumulation.

A successful asset accumulation strategy must mitigate the barriers discussed above. The absence of a culture of ownership means that asset accumulation policies must educate the poor on why owning assets is the only sure way to exit from poverty. The issue of low earnings and saving suggests that a viable approach must, at least, provide sufficient incentives for low-income households to postpone consumption. Likewise, with poor credit histories, proposals must effectively deal with the high risk associated with any form of credit. Since most in the target population have no experience in managing their own businesses or properties, policy proposals must consider financing and operational aspects of any investment undertaken.

Recent evidence shows that even with federal laws prohibiting discrimination in extending credit, redlining remains an important factor that acts as a barrier to access to credit in many poor communities. Given that the there is a real risk associated with many of the redlined communities, the government may have to channel funds to these areas with the sole purpose of boosting asset accumulation.

Finally, because of the current structure of the welfare system, proposals to deal with asset accumulation must have the support of the federal government. State initiatives may be effective but will fail without the participation of the federal government. Specifically, the federal government must allow recipients of transfers to continue receiving at least some of the benefits if they work and accumulate assets. Likewise, low-income households not on welfare must not be taxed heavily when they start to accumulate assets. This may require a reduction in, or complete exemption from the capital gains tax.

IV. Financing Asset Accumulation: A Corporate Ownership Strategy

(a) Basic Elements of the Proposed Strategy

How can one facilitate asset accumulation by a large number of those with low incomes given the many personal and institutional characteristics that make conventional methods of financing asset accumulation infeasible? We propose a method of asset ownership based on equity shares analogous to those of modern corporations. The shares would be traded in local brokerages set up to serve low-income households. While the proposed approach needs the initial support of the government and other sponsoring agencies, the process would be largely dependent on market forces. Government investment incentives, however, would play an important role in this proposal.

To illustrate consider a rental building that has twenty rental units. Suppose that the current market value of the building is $ 1,000,000 or $50,000 per apartment. Existing proposals help individuals purchase the single apartments. Given the low incomes and other characteristics of target households, few can afford the regular payments for the purchase of such apartments. In our proposal, the apartment building would initially be owned and managed by a private firm. The firm receives financing from conventional lenders probably with some government guarantee or support. The total value of the building is divided into shares that are sold to target households. The private firm retains ownership until all shares are bought and all debt is retired. The private firm may retain the management role even after transfer of ownership is complete because of management problems associated with the diffuse ownership and limited management experience of the equity holders. The apartment building illustrates the idea; the concept applies to business offices, grocery stores, and other similar assets.

If many assets and businesses are purchased by low-income households, then to facilitate competition, different firms should manage the properties and businesses. In addition, the investors themselves are free to choose where to invest.

Central to our proposal is financing. For low-wage earners, we propose a pretax payroll deduction dedicated to the purchase of shares accompanied by a federal incentive payment. During every pay period, a qualified worker receives a pay check plus an investment coupon with a face value equal to the amount deducted plus the investment incentive payment. If individuals decide that they want cash, they can redeem the coupon but only for the amount deducted, less tax owed. For many poor no tax would be owed. If the coupon is used to buy shares of local assets, then the individual purchases shares worth the face value of the coupon. In essence, the investment coupon has three values: (a) the amount deducted, (b) the investment value, and (c) the cash value. The policy proposal selects an incentive payment scheme that makes the investment value sufficiently attractive relative to the cash value. The incentive payment could respond to income and the percentage of income dedicated to buying assets. For example, a higher incentive payment could be paid to those with low incomes and to those who have a higher proportion of income deducted for investment purposes.

For those on welfare, the proposal allows earnings without reduction in welfare benefits, if a certain percentage of their earnings is dedicated to buying shares of assets. Welfare recipients can accumulate assets up to some amount without facing a penalty. An incentive payment is also made. The investment coupon received by welfare recipients has a lower cash value than for those not on welfare as it factors the implicit tax on earnings.

We also want to provide investors with the opportunity to borrow against their investment. We propose that shares be used by banks as collateral. Instead of channeling funds to public projects, government can make such funds available for loans to low-income households. For example, a bank holds the share certificate and issues a loan equal to a certain percentage of the value of the certificate. To encourage further investment in asset accumulation, those who borrow to buy shares could receive more favorable terms than those who borrow funds to consume.

The federal contribution is recovered if an investor sells the shares for cash and does not invest in other assets. We do think that such an incentive payment is necessary and also consistent with the principles of equity. Today, the federal government subsidizes asset accumulation by middle- and high-income earners through the mortgage interest deduction allowed in computing federal taxes. This benefit is not available to the poor, who are not able to purchase their own homes. The investment incentive program could therefore be viewed as a similar subsidy to low-income households.

(b) Implementing the Strategy

Initial implementation requires that the government authorize employers to make pretax payroll deductions. To simplify the task, assume that deductions are allowed only in some specific amounts (say $20, $50, $70, $100, and so on). The government provides employers with coupons that they issue to the workers together with their paycheck. Eligibility rules also need to be established such income levels and family characteristics.

To implement this strategy in the inner-cities, we first identify several assets that private firms purchase. These firms only act as facilitators in the transfer of ownership to low-income persons in a given locality. The firms will also play a management role -- leasing the properties, collecting rent, making repairs, and so on. Private firms purchase the assets through standard methods of financing. The loans to buy such assets could be guaranteed by the government. The total value of each asset is dividend into shares. Second, in each city, a simple brokerage center facilitates trades in shares of assets.

Workers who are eligible to participate in the program select the deductions from their paychecks. The employer then issues the workers an investment coupon. The holder of the investment coupon has a number of options. During some pay periods, workers may not want to invest in assets due to other commitments. If the choice is not to invest, the holder of the coupon takes it to a brokerage firm that pays the worker the cash value. Most of the time, the investors use the coupons to buy assets. In this case, the holders choose between several assets that are offered for sale and that are managed by different firms. Once an investment decision is made, the investor receives a certificate indicating the number of shares for designated assets. The brokerage firm then sends the coupon to the asset management firm that eventually receives payment from the government. The brokerage firm regularly sends statement to investors showing the value of their investments. The statement also indicates the cash value that investors receive when they cash their assets.

To illustrate, consider a low-wage worker facing a 6-percent marginal tax rate (federal and state). Assume that the worker has $100 deducted from the pay check every two weeks for investment purposes. Because this is a pretax deduction, the cost value to the employee is the $100 less the tax (100*.06 = $6) or $94.

Suppose that the investment incentive payment is 10 percent. Thus, for $100 deducted from a paycheck, the worker receives an investment coupon with a face value of $110. This means that at a cost of $94, the worker can make an investment worth $110. The coupon has all three values printed: amount deducted, the actual cost to the worker, and the investment value. Notice that the employer sends $100 to the government but that the government, in turn, pays out $110 to the asset management firm.

As noted, the asset accumulation plan is available to recipients of public support. Suppose that a welfare recipient earns labor market incomes and also assume that labor market earnings are subject to a 60 percent implicit tax. That is, for every dollar of labor market income earned, welfare benefits fall by 60 cents. If the recipient has $50 deducted from the paycheck, then assuming a 20 percent incentive payment,[11] a coupon with an investment value of $60 is issued. The cash value of this coupon, however, is only $20 (50- (50*.60)). Note that welfare benefits are not reduced by the amount deducted if the amount is used to purchase assets.

Once investors buy a share of a particular asset, then they become a residual claimant to the income derived from that asset. In our example of the apartment complex, the units are rented and thus some income is derived every month. The management provides each share holder a check or dividend on a regular basis. Investors have the option of re-investing the dividend by buying more shares and receiving incentive payments. It is important that investors see that they can derive income from sources other than labor. We suggest that low-income investors be exempt from a capital gains tax. Likewise, allowing stocks to be transferable at death without taxes provides additional incentives to accumulate assets.

One important modification to the general proposal is to allow sales of shares between local residents. This allows total consumption of local residents to remain constant but at the same time such trades reallocates resources among those with different propensities and needs.

The ownership of the apartment complex provides low-income investors with new opportunities to accumulate assets that do not necessarily need government support. For example, they could now use the asset as collateral in securing conventional loans. In addition, since the apartments are rented out and well maintained and the fact that the owners contribute towards improving the environment in the area, there is a steady income source that can service new loans. Thus, the initial support by the government help reduces the credit risk associated with low-income persons.

As low-income persons accumulate assets, they continue to use the assets and the income from those assets to accumulate more assets. Still, the low-income investors also continue to receive incentive payments if part of their labor income is devoted to purchasing assets. This proceeds until each participant accumulates assets with some specified maximum value.

For this asset accumulation strategy to have meaningful results, the opportunities available to individual investors must increase as their level of asset holdings increase. One approach provides incremental opportunities and privileges once an individual accumulates a certain level of asset holdings. For example, at some level of asset holdings, a person may be eligible for a low interest loan to purchase durable household goods. At a higher level of asset holdings, the investor receives a loan guaranteed by the group to buy an automobile or to start a small business. If individuals accumulate even more assets, then they have a more important role in decision making within the corporation. These opportunities empower the investors.

(c) Viability and Potential Problems

In implementing this corporate ownership strategy, some issues need careful evaluation. The first concerns the necessary incentives that have the effect of encouraging large numbers to participate in the program. Obviously, as the level of asset accumulation and the degree of participation increases, the higher the incentive payment. Such incentive payments, however, also implies larger government expenditures. If it requires extremely high incentive payments before low-income persons respond, then the costs may be too high to have positive net social benefits. As such, before this proposal is implemented, it is necessary to conduct pilot programs that contain a mixture of incentive payment schemes. Such experimental programs need to include participants with a wide range of characteristics so as to investigate the conditions under which the proposal is likely to be viable and cost effective.

What ever the level of incentive payments, the proposal involves substantial government spending, especially if many people decide to participate. If such expenditures involve overall increases in the size of the government, there are likely to be negative consequences on economic growth. Thus, the best results emerge if the resources devoted to the implementation of the proposal are diverted from less efficient spending programs such as the public housing subsidies.

In evaluating the scope of government involvement, it is important to consider both short-term and long-term effects. It is possible that the cost of the proposal may be quite high in the short-run. As individuals accumulate assets, however, the long-run benefits more than outweigh the costs. Thus, high costs in the short-run should not be used to judge the viability of the proposal.

The other issue of concern relates to whether the proposed approach helps the very poor. Although our proposal provides the opportunity for all poor to participate in the program, it is likely that those who take the new opportunities are not the very poor. It is, therefore, necessary to investigate the structure of incentives that effectively encourages the very poor to participate. If the proposal helps the near poor resulting in economic and community stability, then the well-being of the very poor also improves. Thus, our concern should not be whether the proposal necessarily helps all poor directly but whether it helps some of the poor and whether the results have positive spill over effects.

At the same time, given the high joblessness rates in the inner cities, it is worthwhile to consider alternative approaches that help the unemployed and under employed participate in the asset accumulation program. One approach offers unemployed and under-employed people opportunities to buy shares by contributing services in-kind. For example, individuals work several hours everyday cleaning the apartment or performing repairs or painting. In exchange, they receive a coupon that includes the equivalent earnings plus the incentive payment. This "sweat" equity can have a profound effect on work effort and goes a long way in rehabilitating run down and abandoned properties and in creating pride of ownership.

Our proposal restricts the purchase of assets by the poor in particular localities. Such restrictions make sure that the residents in particular localities increase their stake in that community. Imposing such restrictions reduces market efficiency and may affect the appreciation rates of the properties. It is, therefore, necessary to determine whether the benefits of such restrictions outweigh the costs.

In our proposal, we expect a large number of people to jointly own assets in the inner-city. This creates the sense of community necessary to internalize negative externalities. The ownership is probably so diffuse that individual investors may feel powerless as their input into decision making is minimal. It may therefore be necessary to have "ownership groups" so that a particular asset is owned by that number of people that leads to maximum cooperation and participation.

V. Conclusion

Our proposal is radically different from proposals that have been suggested or implemented in the past. Many issues need careful investigation and evaluation. Of particular concern is the incentive structure that must be built into the program to maximize the levels of investments and participation, and at the same time minimize the costs. We note that, while this proposal may hold promise to reduce poverty in inner cities, it is not necessarily the case that the proposal works well in all cities and across all populations. Differences across inner cities certainly play a crucial role in determining the success of such a program. Thus, we suggest that the government and donors consider initiating some pilot projects.

The approach holds promise for a number reasons. First, asset accumulation reduces welfare use in the long run and to slow and reverse the economic decay of urban America. Property ownership is expected to lead to increased work effort, reduced crime, and improve family stability. As asset holding increase, entrepreneurial activities also increase. All these outcomes lead to less dependence on government. As such, the proposed approach has political appeal and likely to receive the support of politicians across the political spectrum.

Notes

1.For a discussion of the various antipoverty policies that comprised the War on poverty and the Great Society, see Joseph Kershaw, *Government Against Poverty* (Washington, D.C.: Brookings Institution, 1970); and James T. Patterson, *America's Struggle Against Poverty: 1900-1985* (Cambridge:Harvard University Press, 1986).

2.See for example, Edgar K. Browning, *Redistribution and the Welfare System* (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1975); Charles Murray, *Losing Ground: American Social Policy, 1950-1980* (New York: Basic Books Inc, 1984); Lowell Gallaway and Richard Vedder, *Poverty, Income Distribution, the Family and Public Policy*, A study for the Joint Economic Committee, U.S. Congress (Washington, D.C.: U.S. Government Printing Office, December 19, 1986).

3.See Robert Haveman, *Starting Even: An equal Opportunity Program to Combat the Nations's New Poverty* (New York: Simon and Schuster, 1988), Chapter Five: Has Government Reduced Inequality?; and Sar A. Levitan, *Programs in Aid of Poor* (Baltimore: The Johns Hopkins University Press, 1990).

4.For a discussion of poverty conditions in inner cities of the United States, see William Julius Wilson, "Cycles of Deprivation and the Underclass Debate," *Social Service Review* 59 (4) (December 1985); and Michael G.H. McGeary and Laurence E. Lynn, Jr., eds. *Urban Change and Poverty* (Washington, D.C.: National Academy Press, 1988).

5.See Edgar Browning and William Johnson, "The Trade-off Between Equality and Efficiency," *Journal of Political Economy*, 92 (2) (1984): 175-203; Gary Burtless and Robert Haveman, "Taxes and Transfers: How Much Economic Loss," *Challenge* 30 (1) (March/April 1987): 45-51; and Robert Haveman, *Starting Even: An Equal Opportunity Program to Combat the Nation's New Poverty.*

6.For a discussion of the weakness of the U.S. welfare policy, especially in regard to asset accumulation, see Sherraden (1991).

7.For example, Robert Haveman (1988) proposes the establishment of an interest earning universal personal capital account for youths provided by the government. Sherraden (1991) suggests the establishment of Individual Development Accounts (IDAs) that are similar to Individual Retirement Accounts (IRAs). Sherraden proposes that IDAs be initiated as early as at birth in the names of each individual.

8.See John D. Kasarda, "Jobs, Migration, and Emerging Urban Mismatches," in Michael G.H. McGreary and Laurence E. Lynn, Jr. eds. *Urban Change and Poverty*: 148-198; and George E. Peterson and Wayne Vroman, eds. *Urban Labor Markets and Job opportunities* (Washington, D.C.: Urban Institute press, 1992).

9.Ken Auletta, *The Underclass* (New York: Random House, 1982).

10.For a discussion of ownership and neighborhood quality, see George C. Galster, *Homeowners and Neighborhood Reinvestment* (Durham: Duke University Press, 1987).

11.Note that this is a higher incentive payment than provided to those with more incomes.